RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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CRUCIAL: I want all subscribers to understand the following and fix it firmly in mind. For this is the most important single concept you'll ever have to deal with in investing -- it's a concept that overrides ALL other concepts, theories, techniques and methods.

The thesis is simple and it concerns the primary trend of the market. First, at some point a bull market will die. A bull market invariably dies in its third phase (this is the low-value, crowd-frenzied, speculative phase). Once the bull dies, you will not again see the two D-J Averages, Industrials and Transports, at joint new highs. You may see a belated rally to a new high on the part of one or the other Average, but you will not see both Averages at new highs.

For this reason, *I always watch carefully once a decline begins during the late stages of a bull market.* I want to watch and consider the chances that either (1) the bull has actually died, or (2) the two Dow Averages will again climb to new highs. New highs on both Averages would, of course, confirm the fact that the primary bull trend was still in force.

Obviously, the same holds true (but in reverse) during a bear market. In the third depressed stage of a bear market, at the point where one or both D-J Averages refuse to break to new lows, that point identifies the end of a bear market.

Conclusion: Based on what I've seen so far, it's clear -- the bull still lives. Big Question: Have the bonds and utilities hit bottom and turned up? Answer: the answer is -- yes.

THE PICTURE: I exchange reports with about 25 other advisories. One negative in these exchanges is that the "other guys" will often pick up my ideas (of course, I might do the same with them). Anyway, here's the front page of the widely-circulated *S&P's Outlook* (Jan. 19) with a warning about a possible "blow-off." Did they get this from *Dow Theory Letters?* Who knows, who cares; listen, there are no copyrights on my thoughts and ideas. But if too many people start looking and preparing for the same thing, it just ain't going to happen.

STANDARD & POOR'S JANUARY 19, 1994

RISKS ARE INCREASING

The grinding bull market seems to be wearing down the bears, heightening the possibility of a blowoff.

Previously sidelined investors appear to be abandoning their reticence, which could alter the balance that has kept the advance sustainable. The change in psychology isn't the result of dynamic rallies. Industrial Average. The NYSE advance-decline line, too, is in the process of breaking out. Technically-oriented traders thus must be stepping up their buying when prices have dropped. Alternatives to stocks, meanwhile, are no less unappealing. Despite gyrations in long-term bonds, money-market returns are holding

STOCKS OFFERING GOOD VALUE

I think I'm going to call this the "Bill Clinton Market." How so? Well, nobody can quite figure it out, and if you watch it closely you learn not to trust it. Like Bill Clinton, this market has somehow held together longer than anyone thought it would. It's not a very popular market, yet it has a lot of the public in it.

In the last few Letters I ventured the guess that the stock market was positioning itself to "blow-off" on the upside. I noted that the market had been "creeping" higher almost daily, and I wondered how long this creep, creep, creep could continue before creep turned into explosion. As this is written (blush), I'm still asking the same question. And obviously, the answer isn't in yet.

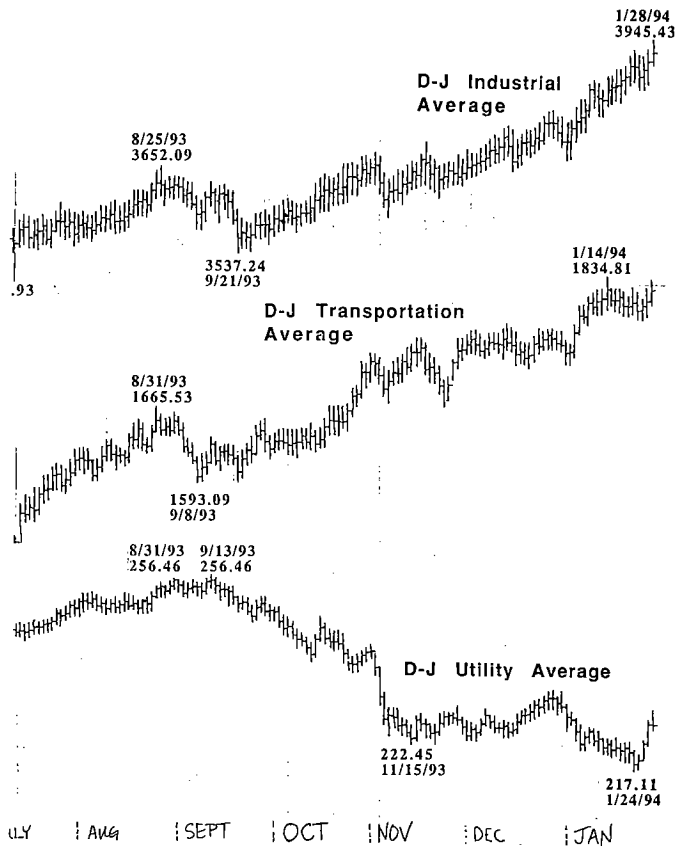
Jan. 21 DJIA 3914.48; PTI 4074; A-D Ratio -1.78
Jan. 28 DJIA 3945.43; PTI 4090; A-D Ratio -1.51
Dow Yield: 2.57%; Dow Price/Earnings: 30.4
Dow 200-day MA: 3612; Dow 30-day MA: 3820
Dow Times Book Value: 3.44; PTI 89-day MA: 4012
Percentage of Undervalued Blue-chips: 8%
Dow Low Risk Buy Index: +110; Gold-PTI: 1055

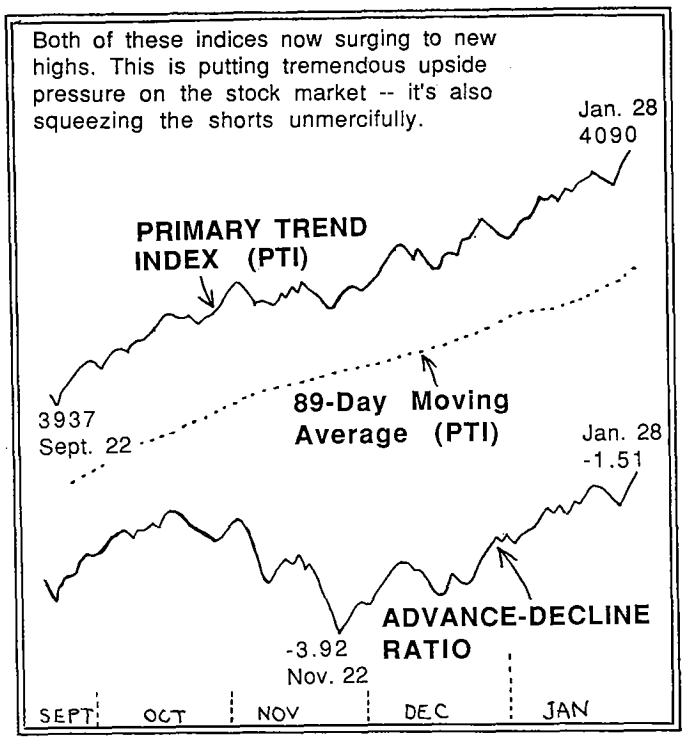
Frankly, this market's been an extremely difficult one to call. What we've been seeing is a veritable parade of averages and indices (with the notable exception of the Utilities) advancing to new highs. And once again I ask myself, " Can this keep up? Can the market continue to just climb the up-escalator, can the various averages continue to set record highs -- and still no roar, no explosion, no all-out "blow-off" on the upside?"

Last week, again, we saw new highs in the Dow, the NYSE Composite, the S&P 500, the Wilshire, my PTI, the A-D ratio (plus bullish action in Utilities and basing action in bonds). But strangely, we also saw a dramatic dearth of daily new highs on the NYSE. Yes, it's a market calculated to drive orthodox technicians up the wall.

As you know, I put a good deal of emphasis on the trend of the utilities and bonds, and now that these two have turned around and are moving higher, it takes a huge weight off the shoulders of the bull.

There are two distinct ways of looking at the current market. On the one hand (if you are skeptical or bearish) you can say, "Listen, this





market has not experienced a 10% correction in over three years. No 10% decline in three years -- that hasn't happened since the turn of the century. Therefore, let's not kid ourselves. The odds heavily favor a good correction, if not a bear market, sometime during 1994. This is doubly true, because this market is not only uncorrected, it's severely overvalued, and the longer it stays overvalued, the thinner the ice we stand on."

But there's another side of the coin, and the other side reads something like this: "The correction thesis is widely accepted. And it's certainly logical. But be careful with common sense and logic where the stock market is concerned. Remember, the old adage -- 'the market always does what it's supposed to -- but NEVER WHEN.' Sure this market will correct; it will correct in a far bigger way than most people are ready for, and, of course, what I'm referring to here is a primary bear market. But FIRST -- first the fooler. This market is first going to blow-off on the upside.

"In so doing, it will convert all the skeptical bears, it will run all the shorts out of Wall Street, and it will astound everyone with its 'devilish-ness.' It will make fools of the cautious ones. It will do the impossible. But ultimately, it will do what it's supposed to -- collapse in a primary bear market. But first the fooler on the upside -- then the shocker on the downside."

Note: The latest figures show uncovered shorts on the NYSE rising to a new all-time record high. It's amazing that despite the steady upward push of the Dow so many short sellers are willing to sit with their shorts and even add more to their position. And yes, I'm aware that the short position today can be deceptive because there is so much arbitrage between shorts and calls and actual stock positions. But I still take it as significant that we have new record highs in the total short position.

Confession: I get a sense of fantasy -- something almost unreal -- in the current market action. It's as if the bull is daring us to doubt him. Pull out the valuation tables, study the yield tables, examine book values going back 90 years. All of these studies warn us to be cautious, to be careful, in fact, they tell us in no uncertain terms to be out of this market. And yet the Dow, the broad averages, the composite indices -- have been advancing to new record highs.

I'm reminded of a crusty veteran investor I knew who had made multi-millions during the 1949-66 bull market. A young-pup trader screwed up his courage and asked the old fellow for the secret of his riches. The veteran informed the trader that the secret was sitting rather than trading his stocks throughout the length of the bull market. In other words, explained the veteran, "I made more money with my rear-end than I did with my head."

Note: Frankly, I don't think I've ever seen market action comparable to what I've seen so far in '94. It's sloppy in a way, and it keeps you on the edge of your seat. For instance, where are the daily new highs? Where are the huge upside breadth figures? Seemingly, it just doesn't matter. This market continues to push higher -- all in the face of statistics that have veteran observers shaking their heads or pulling their hair out.

I guess you could call it "the new bull market action of the '90s." It's aggressive, it's dangerous, it defies the old laws -- but it keeps pushing higher.

INVESTMENT POSITION: Last week I took out insurance on my S&P 500 March calls. I sold half of my position and in so doing took a small profit. The sale covered my total purchase price, so from here on it's a free ride on the other half of my calls. So I'll ride the other half of my options, and just see what develops.

Ah, frustrations. The ideal way to have played this market (with the Dow obviously the lone-hero on the upside) would have been to have bought the XMI call options instead of the S&P options. But alas, there's just no liquidity in the XMI options, so it's the old story -- the bull finds a way to rise while taking as few people as possible with him. By the way, the XMI or Major Market Index consists of 20 Dow stocks; it's a proxy for the Dow, and it came into existence because Dow Jones & Co. would not allow derivative speculating on its copyrighted D-J Industrial Average.

Personally, I feel that I've played this situation the right way, considering how I feel about this market. As subscribers know, I haven't liked this market for a long while. Why? Well, it's ridiculously overvalued, it's up to its neck in Joe Public's mutual fund money, it's far too complacent, and its under-structure, high liquidity and low interest rates, have been rigged by the Fed.

On this basis, I've pretty much moved out of common stocks. But I did feel that there was a chance of one final blow-off on the upside. That, I felt, was worth a play with options only -- rather than any significant holdings of common stock.

So far, the big "blow-off" scenario has not materialized, although I guess you could call most of the January action in the Dow a version of a blow-off. So all in all, I'll just stick with my "calls and no stocks" position, and see what develops.

One other factor -- my Low Risk Index on the T-bonds has turned up (see Note below). If this is a valid indicator, then the bonds should move higher and long-term interest rates should move lower. This would be a big plus for an area that has been a major drag on the broad market -- the utilities.

Warren Buffet, the investment genius behind Berkshire-Hathaway, says that if you have one or two good investment ideas each year, that's enough. I agree. My great idea last year was gold. And it's my idea this year as well. The gold idea turned out to be a winner last year -- I think it will be a winner again.

John Bollinger reminded me that veteran commentator Ed Hart (bless his soul, he's in heaven now) said that when the time came to own gold it would be too late to do so -- or gold would be illegal or unavailable or too expensive.

All during last year I warned that this is the early part of the second phase of the gold bull market, and that we could expect a lot of tedious, tortuous and frustrating action in both gold and the gold stocks. But "it's a bull market," and bull markets (given time) erase all mistakes -- mistakes of buying at the peak of rallies, mistakes of

buying laggards in the group, or mistakes of buying just before a bad-news announcement.

I also warned that when you buy or own gold, you are definitely fighting the government. The government, you see, lives by the Big Lie. The Big Lie is that inflation has been conquered. But believe me, it hasn't. Today we have synthetic low interest rates, we have federal deficits of $1 billion a day, and we have a national debt that is pushing into the $5 trillion area. How will all that be managed? The way it always has been managed -- via inflation.

Remember this -- "Debt is the father of inflation." You can do only three things with debt: (1) you can pay it off, (2) you can get rid of it by declaring bankruptcy -- or (3) you can inflate it away. Which one is the US' avenue of choice? You know the answer as well as I do.

So for my brilliant investment idea in '94, I choose gold again. It's a bull market in gold, and you can either watch it, deny it -- or get aboard. Of the big class-A gold shares, I think Placer Dome is the cheapest. I like Homestake, and HM is a much better company today than it was in the '70s. I also like American Barrick, but it's expensive based on dollar of sales per share. I like the two Toronto royalty golds, Euro Nevada and Franco Nevada. I like Cambior on the Montreal. I like Agnico Eagle, Echo Bay, Royal Oak, Pegasus, Hemlo and Horsham.

Note: On my Low-Risk Index studies, three groups have just turned up. The three groups are big Integrated Oils, T-bonds and the large money-center banks. The L-R Indices are based on momentum, and when an Index turns up it indicates that this is a low-risk entry point (or that downside momentum has dried up).

NOTICE: For decades I have offered two chart albums, one a daily history of the D-J Averages going back to 1885 (Industrials, Transports, Utilities, bonds, volume) along with notations of important news events of the day. The second album covers the Dow and the all-important advance-decline ratio (daily from 1931 to the present). Why nobody else in this huge multi-billion dollar industry does this always amazes me -- maybe they think it's just too much research and work (and they're right). Also, I could never understand why any serious market student would want to be without these two albums. Actually, I began the albums back in the '60s, mainly because I wanted to see the charts myself.

The albums are three-ring, loose-leaf, a large 11" x 17" page for each year. The price -- $135 for the D-J Averages, $95 for the A-D album. In the US we pay the postage, but for those outside the US please add $35 extra for each book. ALSO, for those who already have the albums, updated pages are $3 each, but be sure to tell us what years (and which album) you need. New pages for 1993 will be ready in a few weeks. Note: These are fat, heavy albums, and I'll be raising the price in a few months.

NOTES & QUOTES: In response to many letters asking about my progress in chelation, the story is that I have now had 12 sessions, and I'm going to go a full 30 sessions. Each intra-venous session takes about 2 1/2 hours. So far, I feel good, and maybe it's my imagination, but I believe I have more energy now than when I started. I'm still getting many letters from people (subscribers, readers, friends) regarding chelation. It's obviously a subject that arouses passions. One physician called and told me chelation was a fraud and a ridiculous expense. I told him that it could conceivably be a fraud (I don't believe it is, and the good doctor had no evidence to prove that it was), but as far as an expense, the whole 30 sessions will cost roughly $3,000. A "ridiculous expense"? C'mon, what's $3,000 compared with what my insurance company paid for one quintuple bypass ($65,000) and one angioplasty with an accompanying "stent" ($45,000).

* *

Of all the tangibles and collectibles, high quality jewelry (precious stones) has held up best during the deflation of the last few years. For preserving wealth, many investors know that good stones (rubies, emeralds, diamonds, sapphires) possess a long history of holding or increasing their value over time. But like anything else, you have to buy quality stones priced right, and when the prices are down. Many precious gems and much fine jewelry is passed on from generation to generation. Remember, to be a real store of value an item must not deteriorate over time, it must be universally desired, and it should be portable (i.e., gold, gems, rare coins and stamps, great art).

Art prices have been whacked over the last five years, although selective wanted works have recovered quite a bit in price. Stamps were killed during the '80s, and have made little in the way of a comeback. Coins, selected coins, have done OK, but in general coins have not done well.

But could the situation be changing? This from my very knowledgeable friend, David Fuller out of London: *"Collectibles: I've said it all year, and I'll go on saying it -- a new collectibles boom is unfolding. This is no longer theory; it is being confirmed by auction house results across a broad spectrum of categories. Therefore, if you suspect, as I do, that governments remain determined to inflate their way out of recession, which is creating too much paper money relative to goods and services, replacing deflation with more inflation in the latter half of this decade, then continue to take some of those bond profits and invest them in quality collectibles that you can enjoy and that you can afford . . . I recommend diversifying into real assets because, just as deflation has been the problem (opportunity if you bought bonds), inflation will be the next long-term problem (opportunity if you buy real assets)."* Russell comment: I subscribe to both the Christie and Sotheby jewelry auction catalogues, and I can tell you that actual auction prices of fine gems and jewelry have been surprisingly strong. It may be rough out there, but the rich from around the world keep buying jewelry.

* *

Legg Mason's Paul Macrae Montgomery, master of contrary opinion, has done some extraordinary work using widely-watched magazine covers. In a piece just received, Paul notes the recent *Time* cover featuring "Las Vegas, the New All-American City." Paul notes that nine states now allow casinos and 37 states sponsor lotteries. In other words, Las Vegas no longer enjoys a monopoly. Paul surmises that the *Time* cover could indicate a respite for gambling stocks and gambling in general in the US including gambling on the stock market in "new issues, emerging markets, low liquidity, hot mutual funds and the like."

Russell comment: You know, a lot of people lose huge amounts of money gambling, but you never hear a word about it. Last time I was in Vegas I heard a black woman say to her escort, "Jaime lost over $31,000." The words startled me. And I wonder, what happens to all those big losers, people who gamble away a year's salary or even their life's savings? Why don't we ever hear stories about them? What happens to those people? It's amazing, I read 10 newspapers a day and I've yet to read a word about the big losers out of Las Vegas or Laughlin or Atlantic City. When someone wins the lottery or a big jackpot in Vegas, it makes the newspapers. But where, oh where, are the big losers?

* *

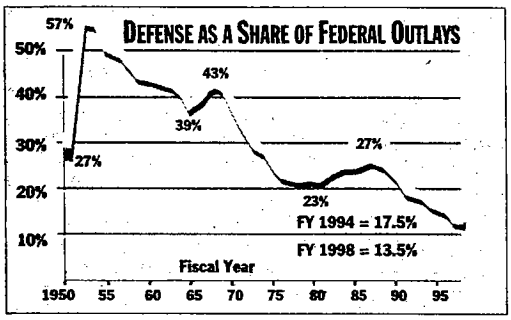
"What fools these mortals be." I didn't say it, Shakespeare did. But let's face it, there's a certain satisfaction in seeing what fools, what numskulls, many of our leaders are. And when a leader falls, we say to ourselves, "I knew it, I knew he was a fool, a liar, a fake, I knew it all the time."

Now the final Iran-contra report reveals that high-level Reagan people "skirted the law, some of them broke the law." And though they denied it, both Reagan and Bush knew what was going on the whole time. In a more current mode, we have the sleazy and often kooky performances of Bill Clinton with too many "incidents" to recite here. Only last week we saw retired and highly-respected admiral Bobby Inman turning paranoid and accusing the *NY Times* and Bob Dole of a plot to defame him. Now a new book about that hero of the Gulf War, General Norman Schwarzkopf, reveals that "Stormin' Norman" was a real pain in the butt, and spent much of his time screaming at his underlings. So violent were Norman's

tantrums that Defense Secretary Dick Cheney thought seriously of relieving him of his command ("Crusade: The Untold Story of the Gulf War" by Rick Atkinson, Houghton Mifflin). But not all the nuttiness is centered here in the US. In Jolly England, Prime Minister Major is having his problems with sex scandals (homosexual and heterosexual) among high-ranking government members. Hey, aren't you glad you're sane?

* *

President Clinton was having a devil of a time finding someone to take the job of Defense Secretary. Wonder why? This chart should tell you. No one wants to preside over a government area that is shrinking. And that's what's happening to defense. Clinton obviously wants to cut defense and spend on health and welfare. But the chart tells us that the declining defense trend has been going on for a long while.



SOURCE: Department of Defense

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President Bill Clinton, the Great American Enigma ("Who is he, what does he want, what is he doing -- and why?). This column written by a man who has followed Clinton in his own state for years, is the best piece I've seen anywhere about Clinton. I couldn't resist reprinting it here, so forgive me (from *USA Today*). And please, don't get me started on that State of the Union speech. Gosh, Bill is on his way to changing the US into a perfect socialist paradise.

Bill Clinton's first year as president seems eerily familiar to anybody who followed his gubernatorial career in Arkansas. The operetta turns out to be remarkably true to its overture: the same impressive intelligence, stamina and articulation at work, and so many compromises one forgets what, if any, beliefs are being compromised. And the same talent for public relations, now augmented by David Gergen's.

Only now and then, like last spring, does this administration give intimations of a capital-C Crackup. And then the Comeback Kid comes back. Bill Clinton seems blessed, or cursed, by a sublime casualness in the face of embarrassments that might have any of the rest of us walking the floor nights. There's a lot of the good ol' boy in this president. There's always a way out, and hasn't he always found it? There are days when he reminds one of a kind of relaxed Richard Nixon.

By Paul Greenberg, editorial page editor of the *Arkansas Democrat Gazette.*

If he begins to bore some of us, he himself never seems bored by the process. He can talk, think and dream politics days, nights and weekends.

As in Arkansas, lots of new legislation gets on the books, but any resemblance between what was proposed and the final, diluted version may be only coincidental. That may be because this president never met an interest group he couldn't offer something. The energy bill and last year's budget went through this straining process, and you can see the same thing happening to health care. The style is unchanged: a grand opening and then a succession of retreats, sidesteps and course changes. He tends to meet any opposition three-quarters of the way. Well, make that five-sixths.

The defining characteristic remains a kind of highly active drift, in some ways a second Bush administration — moderate and undefined.

By now the political landscape is littered with the president's forgotten promises, some abandoned even before he took the oath, like the pledge to allow Haiti's boat people to apply for political asylum. Remember the oh-so-earnest vow to close the revolving door between private lobbying and public service? The promised tax cut for the middle class has gone the way of equal rights for homosexuals in the military, campaign reform, clear new protections for the environment and so fuzzily on.

Gone, too, is much hope of stopping the killing in Bosnia or insisting on greater respect for human rights in China. But let's not delve too deeply into foreign affairs; light lie the ashes of U.S. leadership after a year.

While pledges have been abandoned or negotiated away, occasionally the president will repeat them, adding that he really means it this time. It seems to make him feel better.

Besides, this president has become something of an expert at presenting defeat as victory. See his remarks on the resignation of Les Aspin as secretary of Defense, or his expressions of undying affection for Lani Guinier as he de-appointed her to a civil rights post in the Justice Department.

Sometimes the Clinton vision is only partly cloudy. He has a right to crow over the North American Free Trade Agreement and creation of the largest free-trade zone in the world despite the usual Clinton clauses he felt compelled to add — largely cosmetic touches that didn't fool its staunch opponents. And after NAFTA, the semi-successful conclusion of the GATT agreement came almost as an afterthought.

In his late-starting but fast-finishing fight for NAFTA, Bill Clinton showed all the political skills he had honed in Arkansas, but on an expanded scale. He's definitely grown in office. The Slick Willie who would promise folks anything but give 'em an excuse now does so with ever-greater sophistication. Call him Slick William.

The country has had presidents without clear principles before; what's new is that, rather than defend his retreats as necessary exceptions to a noble rule, they have become the rule itself, proof of professionalism and competence. What were once the means of politics, the flawed compromises, have become the ends.

Is there anything at the center of the Hollow Man? Yes — a faith in technique. Usually it's the same technique he practiced as governor: When faced with a problem, gather together all the experts and interests and let them work it out. It's nice when it works. When it doesn't, a Branch Davidian compound may go up in flames, or U.S. troops in Somalia may be trapped without the armor they had requested.

If Clintonism has a belief, it is in experts, who will surely know better than the free market, or field commanders, or dull reality.

* *

When I was a kid, TV didn't exist, and for entertainment we had books and radio. One of the radio drama programs that we all loved was "The Shadow" (you old timers remember Lamont Cranston, the Shadow, and his hideous but thrilling laugh, "Ah, the weeds of crime bear bitter fruit -- the Shadow knows"). Now Hollywood is coming out with a new film, you guessed it -- "The Shadow." Talk about extended runs, the Shadow made its radio debut on August 1, 1930, during the Depression. The show ran until Dec. 26, 1954. Then it was re-syndicated during the '60s and '70s, and you can still hear it occasionally on radio reruns (Orson Welles played the Shadow during 1937-38). Welcome back, Shadow.

* *

Oh-oh: Says one contractor whose company is owed $750,000. "They're hurting a lot of people." He's talking about the big new Barneys New York, which is up to four months late on between $20 and $30 million of payments owed to contractors who built the new flagship department store on Madison Avenue. Is Barneys in financial trouble? The owners say no. But all New York is wondering.

* *

Speaking of the center of the universe (New York City), the word is that cholesterol is back via juicy steaks. The beautiful people of New York are eating red meat again, and a number of new steak houses have opened in Gotham. The *NY Times'* new restaurant critic, Ruth Reichl (she writes a terrific column), runs down the major steak houses. In NYC the critics are tough, and they tell it like it is. Of Christ Cella Reichl writes, "They serve decent steaks at average prices here, but the prices for everything around them are so obscene I can't in good conscience recommend the restaurant. Shrimp cocktail is $19. Hash browns are $9.75. Spinach is $9.75. Asparagus is $12.50. When you walk in you look around and wonder why the room is empty; when you get the bill you know the answer." Ah, but she loves Pietro's and Peter Luger. Russell comment: Aren't you glad you live in Rapid City or Charlotte or Austin?

* *

Prices: Home prices have been declining in LA with the biggest drop being taken by high priced houses. In NYC prices have held steady; in Phoenix and Chicago prices have pushed up roughly 5% over the last year. In San Diego prices are soft, with some monumental beatings being taken here. This is a note from a January 21 San Diego newspaper. Get this -- with outstanding debt of $14 million, this building was bought for $2.55 million. The building was completed in 1985 at which time it was described as a $13 million property.

The 61,518-square-foot, six-story Mission Valley Plaza office building at 1011 Camino del Rio South, San Diego **92108**, has been taken through foreclosure.

Acquiring the property was Imperial Federal Savings Association under the receivership of the Resolution Trust Corp.

Losing the property was Mission Valley Plaza Associates, a California limited partnership.

The foreclosure bid was $2.55 million on outstanding debt of $14.13 million. The debt was from a December 1987 loan by former Imperial Savings Association to Mission Valley Plaza for $11.6 million.

* *

Ah real estate: The Jan. 20 *WSJ* (op-ed page) included a piece entitled "The Fall of the Reichmanns." At one time the Reichmanns of Canada were number 4 on *Fortune's* list of the world's richest families. Then they suffered what could be the largest bankruptcy in history (triggered by the Reichmanns' ill-fated Canary Wharf project in London). It all reminded me of what my dad, a real estate man all his life, once told me. He said, "Dick, the big builders become too bullish at the top of a boom, and almost all of them end up in bankruptcy. But when the bust comes, the buildings they put up remain, even though the buildings go into foreclosure. Then new owners take over, they refinance the buildings, and if financed correctly the properties may make a lot of money for the new owners." Dad was right. Too bad the Reichmanns couldn't have talked to my dad before their downfall.

More on real estate: I grew up in the Great Depression real estate market. My conclusions were as follows: real estate is great in a bull market; it's deadly in a bear market. Why? One word -- *liquidity*. During an inflationary bull market in real estate the leverage is big, the banks are more than willing, and a lot of money can be made. But in a bear market, illiquidity rears its ugly head. Prices wilt, but you can't get out of your holdings. Nobody wants to buy, or if they do they want huge concessions. The banks panic, they don't want to refinance. And then the losses come in, and they're huge. I know a lot of people who have lost everything in the real estate decline of recent years. And dear readers, we haven't even experienced a real, live, bona fide, honest-to-gosh bear market yet.

* *

Remember Ross Perot? He was the guy who made a fool of himself in a debate with Al Gore. After the debate, Ross vaporized (mmm, did he ever exist?). Russia's new enfante terrible, Vladimir Zhirinovsky, is on his way to doing a Ross Perot. Recently Zhirinovsky bloodied his face in a lunchroom fight. Next, he threatened to toss fellow lawmakers in prison when he comes to power. Finally, he pounded his fist on the podium at the Parliament, shouting "Shut up" and you all belong "in a mental hospital" to his amazed audience. All that during the first week of the Russian Parliament. Zhirinovsky's opponents love it. Said reformist lawmaker Gleb Yakunin, "I'm delighted with Zhirinovsky's latest antics; all his speeches and actions in the Parliament prove he is totally out of his mind . . . In a couple of months he will no longer be a threat to the democratic forces."

Meanwhile, the ruble has crashed to yet another low, this time on fears of the departure of a few of Yeltsin's top people. Latest price for the ruble is over 2,000 to the dollar. Gee, I told the Russkies to back the ruble with gold, but they wouldn't listen to me -- they preferred listening to central bankers and Harvard professors (Gosh, won't anybody believe me when I tell them that only gold is real money?).

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Prostate cancer in men is now reaching epidemic proportions (almost all men over 80 now develop it). Why? Many scientists believe this is a result of the sex hormone, estrogen, which is becoming an environmental danger. The chemical family of estrogens is very diverse, and some variants are so potent that minute doses have a huge effect on the sex organs. Scientists now find that a variety of environmental contaminants with estrogen-like properties is far greater than they had imagined. Some of these chemicals are in hair sprays, spermicides, pesticides, and even in plastics (such as baby bottles).

GOLD: What's the true value of gold? In terms of 1980 dollars, today's dollar will buy approximately 54 cents worth of assorted goods. Now consider this -- gold today is selling in the 380-390 range. Adjust the current price of gold to inflation since 1980, and gold today is priced at around $185. In other words, adjusting for loss of purchasing power since 1980, gold today is an outright bargain.

In the bull market of 1974-80, gold roared up to a peak of $850. Today gold is in a new bull market. If something like the 1980 gold explosion were to happen over the next few years, we might be looking at $1500 gold or even higher. Furthermore, the US is much deeper in debt today than it was in 1980, and it's taking far more monetization of the debt to move the current economy out of the dumps. At any rate, these are some of the thoughts that go through my mind as I analyze gold and the world we live in.

Another thought: Unlike many analysts, I view gold as a long-term holding and as a bastion against US politicians' desires to insure prosperity -- and, of course, when I say "insure prosperity", I mean "insure prosperity" ultimately at the expense of the dollar. So I wish my subscribers would also think of gold in terms of the long term, rather that the price of the metal or the shares next week or next month. Along these lines, I want to include a section from the *Barron's* Jan. 24 "roundtable." Here are a few exchanges between the interviewer and Felix Zalauf, brilliant head of Zalauf Asset Management of Zurich.

Q: And we have already seen the boom part. What about gold, Felix?

Zulauf: The way the world is moving, one of the major themes — like demographics or commodities or agriculture — is probably the end of sound public finance. And the way to play that is gold. But that, again, is a process. And some central banks will probably sell gold, maybe even this year. Italy, for instance. Italy is basically bust, and they own a lot of gold. So they will use the opportunity, when the gold price runs up, to sell some.

Q: At what price levels do you think the banks will sell?

Zulauf: Gold will not go above $500 over the next . . .

MacAllaster: Twenty-five percent qualifies as a move!

Zulauf: Look at it from a longer-term point of view. We have had $500 at the ceiling for 10 years or so. The lower side of that range has been in the high $200s, the low $300s. We will stay in that range, maybe in the upper range of that band, for a while yet. Ultimately — in the next two or three years—we will break the top side. And once we break the $500 level, we will not go to $550. We will go to $750 immediately — and the world will be wondering how they missed the big move.

Gabelli: So, Felix, why wouldn't you buy it here, at $385?

Zulauf: The timing is questionable. I do not know when we will finally break out.

Gabelli: The holding cost is at the lowest in 10 years.

Zulauf: I just think that over the next three years or so, we will run into some problems. But as you have seen in the U.S., the world's central banks are just going to accommodate, eventually. What that means is that we will devalue our currencies. And the opposite side of that is the revaluation of gold.

Q: Do you own any gold now?

Zulauf: I just sold it.

Q: That is why it was down $10 last week.

Zulauf: That is why I am not so hot!

Over at the Fed, governor Wayne Angell is slated to leave, and a new guy (oops, person) is coming in. Angell was a tiger, a hard-money man, who insisted on looking at the trend of gold and commodities as guides to future inflation. Clinton's new choice for

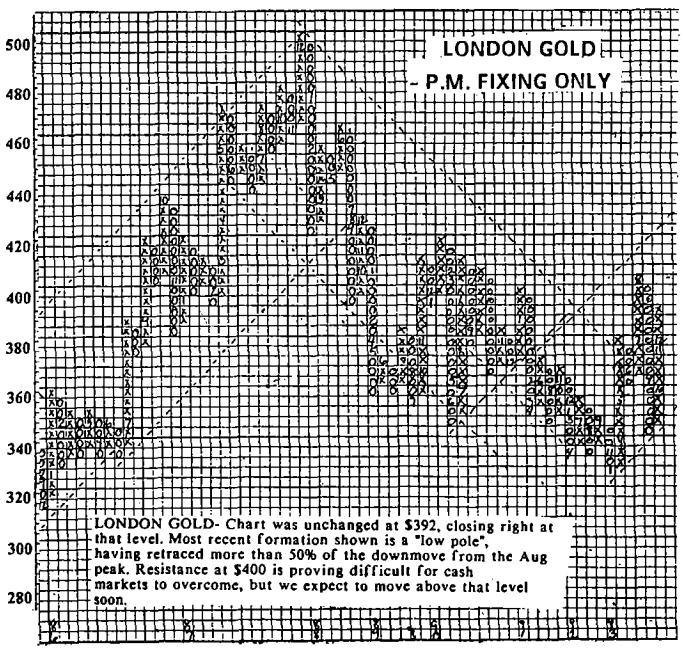
governor will surely emphasize someone who wants to "grow the economy" (a sickening Clinton phrase), and any emphasis on fighting inflation will be down-graded. The Clinton White House has been pressuring the Fed to refrain from any boost in interest rates. Let's get real -- Clinton would accept 5-6% inflation in a heart-beat if the economy would only heat up again.

The government's war against gold goes on (or I should call it the central banks' war against gold). Think about this -- if inflation heats up the long bonds will cave in and long rates will rise. That will increase pressure on the Fed to raise short-term rates. If the Fed raises rates, the full wrath of the Administration will come down on the Fed. Congress may then be encouraged to abridge the Fed's powers (they already want to do just that). So the last thing in the world the Fed wants to do (despite all their recent pumping) is raise rates.

To sum it up, the Fed hates the thought of a bull market in gold. On a near term basis, the Fed does not want to see gold over 400. Therefore, every few weeks or months as gold climbs over 390 "something from somewhere" smacks the gold price, smacks it hard. I don't know who or what's behind it, but I do feel that it's possible manipulation by the Fed or the Treasury or some central bank. They simply do not want to see 400 dollar gold.

Of course, there's another possibility. There were obvious frustrations and disappointments that gold, in its recent advance over 390, could not make the big move to 400 and above. When traders sensed that "failure," they took profits quickly and knocked gold down into the low 380s. It's increasingly obvious that **400** is the upside target and also the major upside barrier for gold. I've said all along that I consider gold under 400 to be dirt cheap. So 400 is indeed a major barrier, but I also feel that 400 will be bettered before 1994 is out. Patience.

I sense that each time gold gets hit, it moves into stronger hands, hands that are willing to hold the metal and the stocks for the long term. But the battle goes on -- the government, the central banks, the politicians, many analysts -- all against gold. Who will win? I say gold will. Why? Gold will win because gold is the truth, and government manipulation and government-sponsored inflation is a lie. OK, I'll be an old fashioned moralist. Gold is real money wrested out of the ground through the sweat and toil and capital of men. Paper or fiat money, "manufactured" out of thin air and costing a government nothing, is a lie and is basically immoral. Truth will ultimately triumph over a lie just as gold will ultimately triumph over paper "money." I truly believe that. The single question is in the timing.


LONDON GOLD
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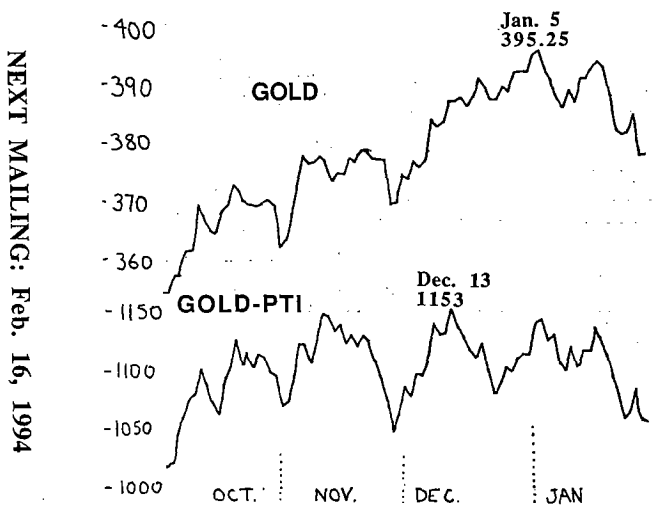
LONDON GOLD- Chart was unchanged at $392, closing right at that level. Most recent formation shown is a "low pole", having retraced more than 50% of the downmove from the Aug peak. Resistance at $400 is proving difficult for cash markets to overcome, but we expect to move above that level soon.

The P&F chart of gold is worth studying. According to the *Chartcraft* method, when a move advances three boxes or more above a previous high it is a "high pole," and when a move declines three boxes or more below a previous low it is a "low pole." When a high pole loses more than 50% of its gains, that constitutes a sell signal. Conversely, when a low pole recovers more than 50% of its losses, that's a buy signal.

For instance, note that gold is now on a low pole in that the last big line of O's took the price down to the 344 box. Gold then recouped a good deal more than 50% of its losses when it rose to the 388 box. This indicates that gold is now on a "buy signal," and that in due time gold should try for the 404-408 area (above the last peak). Actually, the high pole-low pole concept is a variation of Dow's 50% Principle as put forth by my mentor, the great Dow Theorist, E. George Schaefer.

As for the Gold-PTI chart, that Dec. 13 peak of 1153 has proved to be an important barrier. Gold (the metal) peaked two weeks later on Jan. 5 -- and it's been correction time since then. You know something, 1994 isn't starting out as an easy year.



South African note: A number of subscribers ask me about S. African golds. Despite the fact that some of the S. African golds have acted sensationally, I haven't been recommending them. During April 27-29, S. Africa will have its first universal franchise elections. In the voting, the ANC (African National Congress) under Mandela will probably gain the majority. The ANC won't get the two-thirds majority needed to amend the constitution, but still . . . The ANC recently stated that it wants to confiscate one-third of S. Africa's farmland, and it also wants to nationalize all mineral mines. I'll let you in on a secret -- the ANC's program doesn't thrill me. But maybe I'm wrong. Listen, Merrill Lynch sees *"an improving political climate in S. Africa, and we are reinstating coverage of S. African securities."* Thanks, Merrill, now that S. African stocks have advanced tremendously, we're "allowed" back in them.

LATE NOTES: On news of election reform legislation, Japan's Nikkei (Jan. 31) exploded an incredible 1471 points or 7.8% to 20,229 -- well wow! . . . My Low-Risk Index for the D-mark has turned up, as has the Swissie, the yen and also US T-bonds . . . A long list of averages and indices now at new highs include D-J Industrials and Transports, S&P 500, NASDAQ, NYSE Comp., Wilshire, plus PTI and A-D ratio. Daily new highs (finally) also expanding. Even if you're a bear, you've got to be impressed . . . The wild card in the world picture is Russia, which is in volatile and very dangerous shape. The collapsing ruble amid 30% a month inflation is reminding many observers of Germany during the great inflation of the '20s (and, of course, the rise of Hitler) . . . I see gold as simply forming an ever more-massive base . . . Prices of base metals (nickel, lead, zinc, copper, aluminum) are now surging and the commodity indices are heading higher . . . The market "feels" close to "blowing-off" on the upside -- but will those S&Ps start acting like the Dow? Yield on the Dow now down to a teenie-weenie 2.57%. Dangerous? History says yes.